California governor Schwarzenegger declares state of fiscal emergency

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After having failed in its attempt to impose a minimum wage order on California state workers, Governor Arnold Schwarzenegger declared a state of fiscal emergency last Thursday. This allowed him to sign into a law a measure requiring state workers to resume taking three unpaid days off per month, a practice which had just been ended on July 1. It marks the third time in as many years that the governor has unilaterally reduced state worker hours and pay to address California's ongoing financial crisis.

The furloughs, which will affect more than 150,000 workers, will begin the second Friday in August. The order affects all state departments except for the Franchise Tax Board, Employment Development Department, State Compensation Insurance Fund, Housing Finance Authority and California Earthquake Authority. Employees in the Highway Patrol and Department of Fire and Forestry Protection are also exempt.

The order also excludes 37,000 state workers who are part of six public employee unions that signed agreements with the Schwarzenegger administration last June, which increased workers' minimum retirement age by five years and raised their pension contributions by 10 percent.

The Schwarzenegger administration hopes that as a result of the furlough order the remaining employee unions will agree to similar pension and wage changes. When asked why the six unions had been exempted from the furlough order and not others, Schwarzenegger spokesman Aaron McLear explained, "We keep our promises to the unions."

The administration is making it clear that in one way or another it will reduce state employee pension benefits. The current order, unlike its predecessors, has no set expiration date. Furthermore, the governor has promised not to pass any budget that does not include a complete overhaul of the California Public Employees' Retirement System, CalPERS.

Other public unions—including the Service Employees International Union (SEIU), the state's largest union covering 95,000 workers—have thus far issued no response to the furlough order and the governor's overall pension reform proposals.

The SEIU, joined by by the California Nurses Association (CNA), the nation's largest nurses union, has launched a massive ad campaign on behalf of the current state attorney general, Democrat Jerry Brown, who is running for governor. The unions are hoping that the campaign will successfully brand Brown as a friend of state workers and divert attention away from their own role in implementing cuts and imposing austerity measures on their membership.

Brown, however, is no friend of the working class. As governor between 1975 and 1983, Brown proved himself an intransigent advocate of fiscal austerity, freezing state worker wages and eliminating nearly 3,000 positions at the Department of Transportation. At his second inaugural address in January 1979, Brown spoke in terms that are now virtually indistinguishable from those of the current governor. "Government," he said, "no less than the individual, must live within limits. It is time to bring our accounts in to balance."

Currently, the state legislature is nearly five weeks overdue in passing a budget with the state projected to completely run out of cash by October. State Controller John Chiang has promised to issue registered warrants, or IOUs, at that time or sooner if a budget is not passed. IOUs were last issued in July 2009, for only the second time since the Great Depression. Last year, several banks refused to honor the IOUs, a move that the state did not oppose. Several will most likely refuse to honor them this time around as well.

The IOUs will not, however, affect debt service payments to municipal bond investors. The past three years of continuous fiscal crisis have shown that while every program which the state's population relies upon to meet basic needs is to be either destroyed or cut to the bone, its obligations to multimillionaire and billionaire security holders remain complete inviolate.

Writing for National Public Radio's *Planet Money* blog, *Wall Street Journal* reporter Sarah McBride said, "Even if California starts paying bills with IOUs again, bond investors can breathe easy. Part of the reason [IOUs are issued] is to make sure the state has hoarded enough money to pay its bondholders. Take that, furloughed California workers."

Indeed, over the past several years, municipal bond investors have profited handsomely off of the state's fiscal crisis. As a result of enormous volatility in commercial securities, many investors have fled to treasury bills and municipal bonds including those in California, which have a default rate of only 0.03 percent.

Investors have the fullest confidence that the state government will impose whatever measures are necessary against the working class to meet its debt obligations.

Increased demand for the bonds, however, has decreased their overall market yields, prompting calls for the largest debt rating agencies to downgrade California debt, which is currently only a few notches above junk status. State debt has already been downgraded several times since the onset of the economic crisis for precisely this reason.

The inability of the state legislature to end the state's mounting financial difficulties has nothing to do, as many proponents of the Democrats claim, with the "tyranny of the Republican minority," which uses the two-thirds requirement for budget passage to demand ever-more draconian cuts.

The Democrats seek to hide their own role in backing right-wing measures by insisting that their hands are tied in the State Legislature. In reality, however, the Democrats have been willing partners in implementing the governor's budget program . They have already agreed to at least half of the governor's proposed spending cuts, with the remainder to be made up of regressive tax increases. The tax increases proposed by the Democrats include a miserable one percent rise in personal income taxes and completely exempt those individuals in the state's highest tax bracket.

Indeed the Democrats agree in principal with Schwarzenegger and the Republicans that the working class, which is not in the least bit responsible for the state's fiscal crisis, must continue to foot the bill.